

**STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION**

Great Northern Utilities, Inc.	:	
	:	11-0059
Proposed General Increase in	:	
Water Rates	:	
	:	
Camelot Utilities, Inc.	:	
	:	11-0141
Proposed General Increase in Water and	:	
Sewer rates	:	
	:	
Lake Holiday Utilities Corporation	:	
	:	11-0142
Proposed General Increase in	:	
Water Rates	:	(Cons.)

**INITIAL BRIEF OF THE STAFF
OF THE ILLINOIS COMMERCE COMMISSION**

JESSICA L. CARDONI
MICHAEL J. LANNON
Office of General Counsel
Illinois Commerce Commission
160 N. LaSalle, Ste. C-800
Chicago, IL 60601
Phone: (312) 793-3305
(312) 814-4368
Fax: (312) 793-1556
E-mail: jcardoni@icc.illinois.gov
mlannon@icc.illinois.gov

Counsel for the Staff of the
Illinois Commerce Commission

August 4, 2011

Table of Contents

I.	INTRODUCTION	1
II.	RATE BASE – UNCONTESTED	3
III.	Operating Revenues and Expenses – UNCONTESTED	5
IV.	Rate of Return - UNCONTESTED	8
V.	Rates – CONTESTED (WITH THE AG)	15
VI.	Tariff Updates	32
VII.	Depreciation	34
VIII.	Rules, Regulations, and Conditions of Service Tariffs	35
XI.	CONCLUSION.....	36

**STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION**

Great Northern Utilities, Inc.	:	
	:	11-0059
Proposed General Increase in	:	
Water Rates	:	
	:	
Camelot Utilities, Inc.	:	
	:	11-0141
Proposed General Increase in Water and	:	
Sewer rates	:	
	:	
Lake Holiday Utilities Corporation	:	
	:	11-0142
Proposed General Increase in	:	
Water Rates	:	(Cons.)

**INITIAL BRIEF OF THE STAFF
OF THE ILLINOIS COMMERCE COMMISSION**

Staff of the Illinois Commerce Commission (“Staff”), by and through its undersigned counsel, pursuant to Section 200.800 of the Illinois Commerce Commission’s (“Commission” or “ICC”) Rules of Practice (83 Ill. Adm. Code 200.800), respectfully submits its Initial Brief in the instant proceeding.

I. INTRODUCTION

On December 22, 2010,¹ Great Northern Utilities, Inc. (“Great Northern”), Camelot Utilities, Inc. (“Camelot”), and Lake Holiday Utilities Corporation (“Lake Holiday”) (collectively, “Utilities, Inc.” or “the Companies”) filed tariffs seeking a general

¹ Camelot and Lake Holiday filed on December 30, 2010.

increase in water and sewer rates.² On January 20, 2011 and February 9, 2011, the Commission entered Suspension Orders commencing the investigation concerning the propriety of the Companies' request for rate increases and on May 18, 2011 entered a Resuspension Order extending the suspension through November 29, 2011. At a status hearing on March 10, 2011, the Administrative Law Judge ("ALJ") assigned to this proceeding granted Staff's request to consolidate the three dockets. The ALJ established a schedule for the submission of pre-filed testimony, hearings, and briefs (*Tr.*, March 10, 2011, p. 7).

Camelot Homeowner's Association intervened on March 16, 2011, and various customers residing in the Camelot service territory filed Direct and Rebuttal Testimony. The People of the State of Illinois ("AG") intervened on June 9, 2011 and filed Rebuttal Testimony.

At the July 13 and 14, 2011 evidentiary hearing in this matter, witnesses for Utilities, Inc., Staff, and the AG testified. Staff and the Companies entered into a Stipulation³ resolving all issues that had been disputed between the Companies and Staff. In that Stipulation, the Companies agreed to Staff's recommended revenue requirement, as well as all accounting adjustments recommended by Staff's witnesses in their Direct and Rebuttal Testimony. (Staff-Companies Joint Ex. No. 1 REV., at 2-3.) Neither Camelot Homeowners Association nor the AG participated in the Stipulation.

² Great Northern and Lake Holiday sought only increases in water rates, not sewer.

³ In fact, Staff and the Companies entered into a Stipulation on July 13 and then revised some calculations slightly and entered into the Revised Stipulation on July 14. The Revised Stipulation was filed on e-docket on July 15 as Staff-Companies Joint Ex. No. 1 REV.

This Initial Brief will summarize issues that have been resolved between Utilities, Inc. and Staff. The brief will also address contested issues that the AG raised. Staff reserves the right to address any issues not addressed herein in its Reply Brief.

II. RATE BASE – UNCONTESTED

A. Adjustment To Deferred Charges

Staff witness Mike Ostrander proposed adjustments to remove deferred charges from the Companies' rate base because the Commission has not authorized the deferral. (Staff Ex. 1.0, Schedules 1.09) The instructions to Account 186, Miscellaneous Deferred Debits, require the Commission's authority for the deferral of costs. The Companies did not contest these adjustments. (GNUI/CUI/LHUC Ex. 3.0, p. 5)

B. Adjustment to Accumulated Depreciation

Staff witness Ostrander proposed an adjustment to correct Great Northern's accumulated depreciation for the misclassification of land as a depreciable asset. (Staff Ex. 1.0, Schedule 1.10 GN) In 2008 Great Northern purchased land for use as a septic field. The capitalized cost was recorded in Account 320 Water Treatment Equipment and depreciation expense was reflected for 2008 and 2009 with a corresponding impact to accumulated depreciation. Land has no depreciable value and therefore should have been recorded in Account 303 Land and Land Rights. Great Northern did not contest this adjustment. (GNUI/CUI/LHUC Ex. 3.0, p. 3)

C. Adjustment to Utility Plant – Abandoned Well

Staff witness Ostrander proposed an adjustment to reduce the test year utility plant amount for utility plant that has been retired, and is no longer used and useful, but

is included in gross utility plant in Camelot's filings. (Staff Ex. 1.0, Schedule 1.11 C-W) Corresponding adjustments to accumulated depreciation and depreciation expense were made. Camelot did not contest these adjustments. (GNUI/CUI/LHUC Ex. 3.0, p. 4)

D. Adjustment to Utility Plant – Pro Forma Plant Additions

Staff witness Ostrander proposed adjustments to reflect the changes in Camelot's water utility plant, accumulated depreciation, accumulated deferred income taxes, and test year depreciation expense due to the reclassification of the estimated costs of capital projects from deferred charges to pro forma plant additions. (Staff Ex. 1.0, Schedule 1.12 C-W) These capital projects qualify as pro forma plant additions and along with the other components of rate base, are known and measurable, reasonably certain to occur subsequent to the 2009 historical test year and within 12 months after the filing date of the tariffs, and the amounts are determinable. Camelot did not contest these adjustments. (GNUI/CUI/LHUC Ex. 3.0, p. 4)

E. Adjustment to Deferred Charges – Disallowed Pro Forma Plant Addition

Staff witness Ostrander proposed adjustments to reflect the changes in Lake Holiday's utility plant, accumulated depreciation, and test year depreciation expense due to the disallowance of a pro forma plant addition. (Staff Ex. 1.0, Schedule 1.13 LH) Lake Holiday, in its initial filing, classified a ground storage tank pro forma plant addition as a deferred charge. The Company subsequently acknowledged that the ground storage tank project has been moved to a future date due to budget constraints. This deferred project is not known and measurable and is therefore not in accordance with

83 III. Adm. Code 287.40. Lake Holiday did not contest these adjustments. (GNUI/CUI/LHUC Ex. 3.0, p. 4)

F. Adjustment to Deferred Charges – Tank Painting

Staff witness Ostrander proposed an adjustment to reflect the deferred cost of tank painting, net of amortization, in Lake Holiday's rate base. (Staff Ex. 1.0, Schedule 1.14 LH) The costs incurred for the tank painting are deferred and amortized over the expected life of the improvement of the asset. Lake Holiday is entitled to recover the cost of the betterment which is shown net of amortization in the proposed adjustment. Lake Holiday did not contest this adjustment.

G. Adjustment to Working Capital

Staff witness Ostrander proposed adjustments to working capital for the removal of real estate taxes and to incorporate the effects of other Staff-proposed adjustments. (Staff Ex. 10.0, Schedules 10.08) The Companies did not contest the removal of real estate taxes from the working capital calculation. (GNUI/CUI/LHUC Ex. 3.0, p. 3) These adjustments should be updated to reflect the operating expenses approved by the Commission.

III. OPERATING REVENUES AND EXPENSES – UNCONTESTED

Staff witness Ostrander proposed an adjustment to decrease maintenance expenses because the unaccounted-for water percentage exceeded the maximum as defined by Camelot's tariff. (Staff Ex. 1.0, Schedule 1.16 C-W) This adjustment limits the costs ratepayers bear for unaccounted-for water to what the Commission has set forth as reasonable in Camelot's tariff. Camelot did not contest this adjustment. (GNUI/CUI/LHUC Ex. 3.0, p. 5)

A. Additional Accounting Adjustments

Staff witness Richard W. Bridal II proposed adjustments to reflect allocation factor corrections, remove Consumer Product Index (“CPI”) increases, remove public utility taxes, account for the increase in the state income tax rate, and reduce rate case expense. In addition, Mr. Bridal made recommendations regarding tariff language changes related to public utilities taxes, and additional rate case expense information to be provided by the Companies and Utilities Inc. Illinois regulated utilities in future rate case direct testimony. These adjustments and recommendations are further described below.

Mr. Bridal proposed an adjustment to correct the amount of Water Service Corporation (“WSC”) expenses allocated to the Companies. The Companies used an incorrect allocation factor to calculate each utility’s share of WSC expenses. This adjustment merely updates the costs presented in the Companies’ original Operating Statements for the impact of the allocation factor correction. (Staff Ex. 2.0, at 3) The Companies agreed with Staff’s adjustment. (GNUI/CUI/LHUC Ex. 3.0, at 14) No other party set forth testimony on this issue.

Mr. Bridal proposed an adjustment to disallow increases to various Company Pro Forma Expense Adjustments that were based on an inflation factor. (Staff Ex. 2.0, at 4) The Companies agreed with Staff’s adjustment. (GNUI/CUI/LHUC Ex. 3.0, at 6) No other party set forth testimony on this issue.

Mr. Bridal proposed an adjustment to remove public utility taxes. The taxes, which are an add-on charge to customers’ bills, are not an actual operating expense of the utility and should not be included in tariffed rates. (Staff Ex. 2.0, at 4-5) Also, Mr.

Bridal recommended the Companies proceed in an expeditious manner to make the arrangements necessary to collect the Gross Revenues tax as a separate charge on customers' bills when the rates approved in this docket go into effect. (Staff Ex. 2.0, at 5) In conjunction with this change, Mr. Bridal recommended the Companies add the following language to their tariffs.

ANNUAL GROSS REVENUE TAX RECOVERY CHARGE

Section 9-222 of "The Public Utilities Act," as amended, authorizes a utility to recover from its Customers its liabilities to the State of Illinois for Public Utility Annual Gross Revenue Tax imposed by Section 2-202 of "The Public Utilities Act," as amended. Pursuant to Section 9-222, the Company shall charge an Additional Charge for the Public Utility Annual Gross Revenue Tax equal to 0.1 % of all billings under this rate schedule except for (a) this Additional charge for Public Utility Annual Gross Revenue Tax, (b) the Additional Charge for any Municipal Utility Tax, and (c) any other billings and billing items excluded from the base of the Public Utility Annual Gross Revenue Tax.

(Id.)

The Companies agreed with Staff's adjustment and recommended tariff language. (GNUI/CUI/LHUC Ex. 3.0, at 6) No other party set forth testimony on this issue.

Mr. Bridal proposed adjustments to reflect the impact of the increase in the Illinois State Income Tax ("SIT") rate from 7.3% to 9.5%, effective January 1, 2011, as follows: (1) Increase state income tax expense; (2) Increase Accumulated Deferred Income Tax ("ADIT") for the shortfall resulting from the tax rate increase, to be recognized as a decrease to rate base; (3) Create a corresponding regulatory asset for the future recovery of that additional ADIT liability, to be recognized as an increase to rate base; and (4) Amortize the regulatory asset ratably over the remaining life of the depreciable assets that gave rise to the ADIT. (Staff Ex. 2.0, at 6-8) The Companies

agreed with Staff's adjustment. (GNUI/CUI/LHUC Ex. 3.0, at 3) No other party set forth testimony on this issue.

Mr. Bridal proposed an adjustment to rate case expense to: (1) adjust the estimate for legal fees, (2) adjust costs for customer notices, FedEx, mailings, postage, and miscellaneous costs, (3) remove travel costs, (4) decrease the cost of WSC personnel, (5) adjust consulting fees, and (6) change the amortization period for rate case expense to five years from the three years proposed by the Companies. (Staff Ex. 2.0, at 8-13) In rebuttal testimony, the Companies provided additional detailed explanations of how the Companies account for rate case expense, and provided updated information on incurred rate case expense as of the filing of their rebuttal testimony, along with an estimate of rate case expenses through the conclusion of the proceedings. (GNUI/CUI/LHUC Ex. 3.0, at 6-14) Staff accepted rate case expense as set forth in GNUI/CUI/LHUC Ex. 3.0 subject to one recommendation. Staff recommends the Commission order the Companies, and all related Utilities, Inc. public utilities regulated in Illinois, to provide in direct testimony in future rate cases a detailed explanation of how Utility and WSC salaries are determined in total, allocated to the individual Utility, and directly charged to rate case expense and other "cap time" categories, accordingly. The Commission should order these entities to include with this testimony all supporting schedules and evidence necessary to adequately document the explanation and the amounts set forth in the ordered testimony. (Staff Ex. 11.0, at 2 and 6) No other party set forth testimony on this issue.

IV. RATE OF RETURN - UNCONTESTED

Staff witness Janis Freetly presented the overall cost of capital and recommended a fair rate of return on rate base for Great Northern, Camelot and Lake Holiday. (Staff Ex. 3.0) The Companies accepted Staff's 7.71% overall cost of capital recommendation. (GNUI-CUI-LHUC Ex. 3.0, p. 17)

Weighted Average Cost of Capital
December 31, 2009

Staff Proposal

	Amount	Percent of Total Capital	Cost	Weighted Cost
Short-term Debt	\$23,636,684	6.45%	2.85%	0.18%
Long-term Debt	\$178,726,842	48.75%	6.65%	3.24%
Common Equity	\$164,229,938	44.80%	9.56%	4.28%
Total Capital	\$366,593,464	100.00%		

Weighted Average Cost of Capital **7.71%**

A. Capital Structure

Since all of the Companies are wholly owned subsidiaries of UI, Staff proposed using UI's capital structure for the year ended December 31, 2009, comprised of 6.45% short-term debt, 48.75% long-term debt, and 44.80% common equity. (Staff Ex. 3.0, p. 3 and Schedule 3.1)

Ms. Freetly calculated the balance of short-term debt in three steps. First, Ms. Freetly calculated the monthly ending net balance of short-term debt outstanding from June 2009 through June 2010. The net balance of short-term debt equals the monthly ending gross balance of short-term debt outstanding minus the lesser of (a) the corresponding monthly ending balance of construction-work-in-progress (“CWIP”) accruing an allowance for funds used during construction (“AFUDC”), or (b) the monthly ending balance of CWIP accruing AFUDC times the ratio of short-term debt to total CWIP for the corresponding month. That adjustment recognizes the Commission’s formula for calculating AFUDC assumes short-term debt is the first source of funds financing CWIP⁴ and addresses the double-counting concern the Commission raised in a previous Order.⁵ Second, Ms. Freetly calculated the twelve monthly averages from the adjusted monthly ending balances of short-term debt. Third, Ms. Freetly averaged the twelve monthly balances of short-term debt for July 2009 through July 2010. (Staff Ex. 3.0, pp. 3-4 and Schedule 3.2)

Ms. Freetly adjusted the \$180,000,000 balance of long-term debt outstanding on December 31, 2009 to reflect the unamortized debt expense incurred to issue the debt, which produces a long-term debt balance of \$178,726,842. Ms. Freetly used the

⁴ *Uniform System of Accounts for Water Utilities Operating in Illinois*, Accounting Instruction 19 Utility Plant - Components of Construction Cost (17). Long-term debt, preferred stock and common equity are assumed to finance CWIP balances in excess of the short-term debt balance according to their relative proportions to long-term capital.

⁵ Order, Docket No. 95-0076 (Illinois-American Water Company, general rate increase), December 20, 1995, p. 51.

\$164,229,938 balance of common shareholders equity on December 31, 2009. (*Id.*, p. 5)

B. Cost of Debt

Ms. Freetly estimated that the Companies' cost of short-term debt is 2.85%, which equals a weighted average of the current Prime rate and LIBOR rate that the Companies pay on short-term borrowings. The weighted cost of short-term debt was calculated based on the proportion of the Companies' borrowings at the Prime rate and LIBOR during the short-term measurement period.

The Companies' embedded cost of long-term debt is 6.65%, which includes the annual amortization of debt expense to reflect straight line amortization of the unamortized balance over the remaining life of the outstanding issue of long-term debt. (Staff Ex. 3.0, p. 8 and Schedule 3.3)

C. Cost of Common Equity

Ms. Freetly recommended a 9.56% cost of common equity for UI subsidiaries Great Northern, Camelot and Lake Holiday. She measured the investor-required rate of return on common equity for UI with the discounted cash flow ("DCF") and risk premium models. DCF and risk premium models cannot be directly applied to UI because its stock is not market traded. Therefore, Ms. Freetly applied those models to water utility and public utility samples (hereafter, referred to as "Water sample" and "Utility sample", respectively).

Staff's Water sample consists of domestic corporations classified as water utilities within Standard & Poor's ("S&P") *Utility Compustat II* that have publicly traded common stock and long-term growth rates from Zacks Investment Research ("Zacks").

(Staff Ex. 3.0, p. 9) Staff's Utility sample was selected using S&P credit ratings, business risk profiles and financial risk profiles for a typical water utility since UI is not rated. Ms. Freetly concluded that a credit rating of A with a business risk profile of 'excellent' and a financial risk profile of 'significant' are representative of the business and financial risk of a typical water utility and, therefore, reasonable estimates for UI. Ms. Freetly formed her sample by selecting domestic dividend paying publicly traded corporations classified as electric or gas utilities within S&P *Utility Compustat II* that: (1) have been assigned a S&P credit rating of A+, A, A- or BBB+; (2) a business risk profile score of 'excellent'; and (3) a financial risk profile of 'intermediate', 'significant' or 'aggressive'. Companies that lacked Zacks growth rates or were in the process of being acquired by another company or acquiring a company or similar size were not included in the Utility sample. (Staff Ex. 3.0, pp. 9-11)

1. DCF Analysis

DCF analysis assumes that the market value of common stock equals the present value of the expected stream of future dividend payments to the holders of that stock. Ms. Freetly employed a constant-growth DCF model that reflects a quarterly frequency in dividend payments. (Staff Ex. 3.0, pp. 11-16)

Ms. Freetly used market-consensus expected growth rates published by Zacks as of March 8, 2011. The growth rate estimates were combined with the closing stock prices and dividend data as of March 8, 2011. Based on these growth assumptions, stock price, and dividend data, Ms. Freetly's DCF estimate of the cost of common equity was 8.59% for the Water sample and 9.45% for the Utility sample. (*Id.*, p. 15 and Schedule 3.7)

2. Risk Premium Analysis

According to financial theory, the required rate of return for a given security equals the risk-free rate of return plus a risk premium associated with that security. Staff witness Freetly used a one-factor risk premium model, the Capital Asset Pricing Model ("CAPM"), to estimate the cost of common equity. (Staff Ex. 3.0, pp. 16-18)

The CAPM requires the estimation of three parameters: beta, the risk-free rate, and the required rate of return on the market. For the beta parameter, Ms. Freetly combined adjusted betas from Value Line, Zacks, and a regression analysis to estimate the beta of the Water and Utility sample. For the Water sample, the average Value Line, Zacks, and regression beta estimates were 0.69, 0.59, and 0.56, respectively. For the Utility sample, the average Value Line, Zacks, and regression beta estimates were 0.64, 0.59, and 0.55, respectively. The Value Line regression employs weekly observations of stock return data while both the regression beta and Zacks betas employ monthly observations. Since the Zacks beta estimate and the regression beta estimate are calculated using monthly data rather than weekly data (as Value Line uses), Ms. Freetly averaged those results to avoid over-weighting betas estimated from monthly data in comparison to the weekly data-derived Value Line betas. She then averaged the resulting monthly beta with the Value Line weekly beta, which produced a beta of 0.63 for the Water sample and 0.61 for the Utility sample. (*Id.*, pp. 22-27)

For the risk-free rate parameter, Ms. Freetly considered the 0.07% yield on four-week U.S. Treasury bills and the 4.71% yield on thirty-year U.S. Treasury bonds. Both estimates were measured as of March 8, 2011. Forecasts of long-term inflation and the real risk-free rate imply that the long-term risk-free rate is between 4.5% and 5.3%.

Thus, Ms. Freetly concluded that the U.S. T-bond yield is currently the superior proxy for the long-term risk-free rate. (*Id.*, pp. 20-22)

Finally, for the expected rate of return on the market parameter, Ms. Freetly conducted a DCF analysis on the firms composing the S&P 500 Index. That analysis estimated that the expected rate of return on the market was 12.74% for the fourth quarter of 2010. (*Id.*, p. 22) Inputting those three parameters into the CAPM, Ms. Freetly calculated a cost of common equity estimate of 9.77% for the Water sample and 9.61% for the Utility sample. (*Id.*, p. 28 and Schedule 3.8)

4. Staff Cost of Equity Recommendation

First, Ms. Freetly estimated the investor-required rate of return on common equity for the two samples from the results of the DCF and risk premium analyses for the samples. The average investor-required rate of return on common equity for the Water sample, 9.18%, is based on the average of the DCF-derived results (8.59%) and the risk-premium derived results (9.77%) for the Water sample. (Staff Ex. 3.0, p. 30) The average investor-required rate of return on common equity for the Utility sample, 9.53%, is based on the average of the DCF-derived results (9.45%) and the risk-premium derived results (9.61%) for the Utility sample.

Second, Ms. Freetly adjusted the Water and Utility samples' investor required rate of return upward by 20 basis points to reflect the higher financial risk of UI relative to the Water and Utility samples. To assess relative financial risk, Ms. Freetly estimated the credit ratings implied by the key credit metrics that Moody's Investors Service ("Moody's") publishes for global regulated water utilities and regulated electric and gas utilities. Ms. Freetly compared three-year average financial ratios for UI and the Water

sample to Moody's key credit metrics for global regulated water utilities. She compared the three-year average financial ratios for the Utility sample to Moody's key credit metrics for regulated electric and gas utilities. This analysis revealed that the financial ratios for UI are commensurate with a Baa3/Ba1 rating, while both the Water and Utility samples are commensurate with a Baa1 rating. Ms. Freetly calculated the yield spreads between the credit ratings implied for UI and the Water and Utility samples, which produced a yield spread of 50 basis points. The 20 basis point cost of equity adjustment was derived by multiplying that yield spread by 40%, which is the percent of the overall credit rating that Moody's assigns to the financial ratios. (Staff Ex. 3.0, pp. 29-34)

Thus, the investor required rate of return on common equity for the Companies, 9.56%, is based on the average for the Water and Utility samples adjusted to reflect the higher risk of UI relative to each of the samples. (Staff Ex. 3.0, p. 29)

V. RATES – CONTESTED (WITH THE AG)

A. Response to AG witness Colton

AG witness Mr. Colton agrees with Staff that rate shock is an issue in this proceeding. (Staff Ex. 5.0, pp 24-26; AG Ex. 1.0) Mr. Colton's solution to rate shock, however, is for the Commission to "just say no" to a rate increase. (*Tr.*, July 14, at 274)⁶

⁶ Q: Mr. Colton, you're essentially recommending that the Company should be required to re-file their rate requests; correct?

A: That is my recommendations.

Q: And it's based on your analysis as it relates to rate shock; correct?

A: That's correct.

Q: So essentially what you're saying is the Commission should say no to this requested rate increase?

A: Yes. (*Tr.*, July 14, 274).

Mr. Colton contends that the rates requested by the Companies in this proceeding are substantially out-of-line with comparable water and sewer rates of other utilities. (AG Ex. 1.0, p.4) Consequently, due to the rate shock imposed by the rates proposed by the Companies (and subsequently adjusted by Staff), Mr. Colton recommends, among other things, that the Companies be denied any rate increase and for the Companies to re-file their rate cases. (AG Exhibit 1.0, p.6 lines 133-135 and pp.26-27 lines 572-577)

Mr. Colton's primary support for his recommendation is the Carbondale Survey ("Survey") presented in his rebuttal testimony (AG Exhibit 1.0, Appendix B). The Survey is based on surveys returned by 256 jurisdictions from across the State. (AG Ex. 1.0, p. 8) It provides information, such as minimum water and sewer bills, for each jurisdiction per residential customer. However, because none of the three companies involved with this proceeding (Camelot, Great Northern, Holiday Lake) were among the 256 jurisdictions returning rate surveys, Mr. Colton also provided a pertinent portion of an ICC report which provides actual rate structure and bill comparison for utilities with less than 1,000 customers. (*Id.*)

The Survey, however, provides no support for Mr. Colton. First, Mr. Colton has not established for the record how many of the 256 jurisdictions cited in the Survey are non-regulated entities (*i.e.*, municipalities, homeowner associations, cooperatives, and etc') (hereafter "MOUs") and how many are investor-owned utilities (hereafter "IOUs") regulated by the Illinois Commerce Commission. (*Tr.*, July 14, p. 269) In fact, a review of both the Survey and the ICC report indicate hardly any of the jurisdictions cited in the Survey are IOUs like the Companies.

Mr. Colton incorrectly presumes that water and sewer service rates provided by IOUs and MOUs should be similar. As previously stated by the Commission in Docket Nos. 07-0507 and 09-0319, there are many differences between an IOU's cost structure and the cost structures of a MOU. In Docket No. 07-0507, Illinois-American Water Company's ("IAWC") proposed general rate case, the Commission found that:

Due to the fundamental differences between MOUs and IAWC, it is the opinion of the Commission that a comparison of IAWC's rates and costs to those of MOUs is a very difficult undertaking.

(Final Order, Docket 07-0507, p. 44.)

The Commission further explained:

In the Commission's view, there are significant differences between IAWC's cost structure and those of MOUs which supports the conclusion that comparisons of IAWC's rates to those of MOUs are not practical for ratemaking purposes.

(Id.)

Furthermore, in Docket No. 09-0319, both the AG and the Village of Homer Glen argued that Illinois-American Water Company's rates are higher than surrounding municipally-owned utilities. However, in that case, the Commission reaffirmed its conclusion from Docket No. 07-0507.

Additionally, the use of benchmarking or comparison data as proposed by Mr. Colton in this proceeding to disallow costs for ratemaking purposes is improper. In other words, ratemaking should not be based on averages or benchmarks without in-depth analysis of individual cost components. Because the Commission establishes water and sewer rates based upon the cost of service, and not upon a comparison of adjacent or regional utility rates, a comparison of MOUs' rates to those of IOUs is meaningless. Nothing presented in Mr. Colton's testimony supports the conclusion that

comparisons of IOUs rates to those of MOUs are valid or useful for setting rates. The limited information provided by Mr. Colton in his rebuttal testimony does not provide relevant financial and cost information (e.g., budgets and forecasts, cost of service studies, cost allocation and depreciation studies, water and sewer rate projections, city council rate presentations) for these MOUs to determine necessary adjustments that would allow for an apples-to-apples comparison of the various rates he cites to those Staff proposes for the Companies.

Mr. Colton's assertions also overlook one of the key reasons that the Companies' rates cannot be compared to MOUs. The Companies' rates are designed to fully reflect the allocated cost of their service. The rates shown on a municipal water bill may not reflect the full cost of water service (for example, due to tax subsidies or shared resources). In other words, a MOU utility service may include other costs that are not reflected on the bill but are still incurred by homeowners from other sources. Essentially, the MOUs are self-regulated entities that can implement rate increases or other revenue collection charges as frequently as required without the regulatory lag experienced by IOUs.

IOUs, however, are capital-intensive and require large infrastructure investments to provide utility services. IOUs incur costs which are not incurred by MOUs. For example, Mr. Colton agreed that unlike IOUs, MOUs can gain access to capital at lower rates, and that MOUs are not normally subject to taxation by local, state, or federal governments. He further agreed that IOUs are responsible for paying taxes to local, state, and federal authorities. (*Tr.*, July 14, p. 270-271) These taxes may include property and franchise taxes paid to local authorities, gross receipts, income, and

franchise taxes paid to state authorities, and income taxes and payroll taxes paid to the federal government. (*Id.*) MOUs are typically exempt from paying such taxes since they are run by local governments. These are substantial differences that result in significant cost differences for MOUs and IOUs, rendering a direct apple-to-apples comparison unfeasible.

Mr. Colton provided no analysis evaluating the reasonableness of any specific cost incurred by the Companies in providing water and or sewer service. Therefore, Mr. Colton has no basis to conclude that any such cost incurred by the Companies is excessive or unreasonable. In other words, Mr. Colton did not conduct nor cite to any relevant studies relating to water and sewer costs or services, operational and supply costs, and any other aspects of the water and wastewater services in Camelot's, Great Northern's, or Lake Holiday's service territories.

Mr. Colton, furthermore, provided no cost of service studies or any other information that establishes the comparability of the MOUs systems' costs to the Companies' systems' costs (other than the rate comparisons presented in his testimony) (AG Ex. 1.0 Appendices B, C, D). For example, without the cost of service studies it is impossible to determine what costs are used to develop the MOU rates or whether or not the MOUs' rates are even cost based. In fact, Mr. Colton concurred with this very point (*Tr.*, July 14, p. 271).

Moreover, the numbers represented in the first five columns of AG Exhibit 1.0 Appendix B represent current rates charged by mostly MOUs. If any of these entities seek and are granted a rate increase, their new rates would differ from those that are shown on this exhibit. In fact, the responses in the column labeled "Future rate increase

expected?” indicate that the rates referenced in this exhibit may soon increase as well, further rendering the rate comparison between IOUs and MOUs offered by Mr. Colton useless.

In short, the cost structures and cost recovery mechanisms used by MOUs and IOUs differ significantly. The objective for cost allocation should be cost causation principles, not achieving evenness between IOUs and MOUs.

In this proceeding, and described below, Staff presented evidence through several witnesses that supports the proposed level of revenue requirement and rates, including, but not limited to, the Schedules, which are required by 83 Ill. Admin. Code Part 285. In fact, the Companies presented detailed evidence in this case regarding its specific operating and capital expenses, which Staff thoroughly reviewed. Mr. Colton’s testimony does not address any specific component of the Companies’ operating or capital costs. In fact, Mr. Colton failed to provide any analysis of the Companies’ revenue requirement at all.

Despite Mr. Colton’s recommendation, the Commission is not free to ‘just say no’ to a rate increase. It must “consider the revenues and expenses of the utility.” *BPI v. ICC*, 136 Ill. 2d 192, 219 (1989). This very issue was recently addressed by the Commission at an open meeting. Commissioner O’Connell-Diaz succinctly explained:

We can’t just say ‘no.’ We need to go through each piece of evidence that is presented by the Company in their rate request. It’s our obligation. It is our charge when we come into the office as Commissioners.

Regular Open Meeting (May 24, 2011), at 37.

Staff has presented extensive evidence supporting the reasonableness of its specific proposed levels of costs and rates, which demonstrate that Staff's proposed rate increase should be approved. Therefore, for the reasons discussed herein, Staff recommends that the Commission reject Mr. Colton's arguments.

B. Staff's Rate Analysis for Great Northern

1. Billing Determinants

Staff agreed with the Company that 4,327 is the appropriate number of billing units to determine the Base Facilities Charge for Great Northern. (Staff Ex. 4.0, pp. 3 – 4) Staff also agreed that 22,318,650 gallons as the billing units for the Usage Charge, which is a per 1,000 gallons of water used charge, is appropriate for Great Northern. (Staff Ex. 4.0, p. 4)

2. Cost of Service (COSS) and Rate Design

Staff agreed with the Company's concern that a cost of service study ("COSS") would be too expensive for ratepayers because the cost would have to be allocated over a small number of customers resulting in an adverse impact on rates. Great Northern's 360 customers are all residential customers using a 5/8" meter; therefore, a traditional COSS would provide minimal benefits. Staff believes it would not be in the best interests of the customers to incur the expense of a COSS. (Staff Ex. 4.0, p. 5)

Staff determined from review of the Great Northern filing that the proposed Usage Charge revenue was 65% of Great Northern's total proposed revenue of \$366,393 shown on Schedule E, which left 35% for the Base Facilities Charge revenue. (Staff Ex. 4.0, p. 8) Staff agreed with Great Northern's proposal to recover a greater percent of the revenue requirement from the Usage Charge so that customers are more

able to control their monthly bill by adjusting their usage to match their budget. Staff recommended that the Commission set water rates based upon Great Northern's methodology to recover 65% of the revenue requirement as the Usage Charge and 35% of the revenue requirement as the Base Facilities Charge. (Staff Ex. 4.0, pp. 8 - 9)

Staff and Great Northern agreed upon a revenue requirement in the Stipulation. (Staff-Companies Joint Ex. No. 1 REV., at 1) If the Commission decides to adopt a revenue requirement other than that stipulated to by Staff and Great Northern, then the water charges proposed by Staff as shown on Schedule 4.1 should be adjusted on an equal percentage basis to recover the revenue requirement adopted in the Final Order for Great Northern.

3. Bill Impacts

The monthly bill to a typical customer with usage of 5,158 gallons, will increase by approximately 237.54% (\$49.94 for 5/8" Meter) and 302.67% (\$63.63 for 5/8" Meter) under Staff's and the Company's proposed water rates, respectively. The customers of Great Northern may experience rate shock under either proposal; however, the rates that Staff proposed for this rate case are based on Staff's proposed revenue requirement and are slightly lower than those proposed by the Company. Thus, although these average percentage increases might be considered steep in some circumstances, the increase is necessary in order for the Company to recover its revenue requirement. It should also be recognized that the Company has not had a rate increase since 1998. (Staff Ex. 4.0, p. 13.)

C. Staff's Rate Analysis for Lake Holiday

1. Billing Determinants

Staff agreed with the Company that 22,932 is the appropriate number of billing units to determine the Base Facilities Charge for Lake Holiday. (Staff Ex. 6.0REV, p. 3) Staff also agreed that 106,006,000 gallons as the billing units for the Usage Charge, which is a per 1,000 gallons of water used charge, is appropriate for Lake Holiday. (Staff Ex. 6.0REV, p. 4)

2. Cost of Service (COSS) and Rate Design

Staff agreed with the Company's concern that a COSS would be too expensive for ratepayers because the cost would have to be allocated over a small number of customers resulting in an adverse impact on rates. Ninety-nine per cent (1,898) of Lake Holiday's 1,911 full-time customers are residential customers using a 5/8" meter; therefore, a traditional COSS would provide minimal benefits. Staff believes it would not be in the best interests of the customers to incur the expense of a COSS. (Staff Ex. 6.0REV, p. 6)

Staff determined from review of the Lake Holiday filing that the proposed Usage Charge revenue was 74% of Lake Holiday's total proposed revenue of \$785,653 shown on Schedule E, which left 26% for the Base Facilities Charge and Availability Charge revenue. Staff agreed with Lake Holiday's proposal to recover a greater percent of the revenue requirement from the Usage Charge so that customers are more able to control their monthly bill by adjusting their usage to match their budget. Staff recommended that the Commission set water rates based upon Lake Holiday's methodology to recover 74% of the revenue requirement as the Usage Charge and 26% of the revenue requirement as the Base Facilities Charge. (Staff Ex. 6.0REV, p. 9)

Staff and Lake Holiday agreed upon a revenue requirement in a Stipulation. (Staff-Companies Joint Ex. No. 1 REV., at 1) If the Commission decides to adopt a revenue requirement other than that stipulated to by Staff and Lake Holiday, then the water charges proposed by Staff as shown on Schedule 6.4 should be adjusted on an equal percentage basis to recover the revenue requirement adopted in the Final Order for Lake Holiday.

3. Bill Impacts

Staff's Schedules 6.5 and 6.6 show that the monthly bill to a typical customer with usage of 4,394 gallons will increase by approximately 48.36% (\$8.34 for 5/8" meter) and 90.36% (\$15.58 for 5/8" meter) over a typical customer bill at current rates under Staff's and the Company's proposed water rates, respectively. The customers of Lake Holiday may experience rate shock under either proposal; however, the rates that Staff proposed for this rate case are based on Staff's proposed revenue requirement and are slightly lower than those proposed by the Company. Thus, although these average percentage increases might be considered steep in some circumstances, the increase is necessary in order for the Company to recover its revenue requirement. It should also be recognized that the Company has not had a rate increase since 1992. (Staff Ex. 6.0REV, p. 16)

D. Staff's Rate Analysis for Camelot

1. Billing Determinants

Staff agreed with the Company that 2,610 is the appropriate number of billing units to determine the Base Facilities Charge for Camelot water and sewer. (Staff Ex.

5.0, pp. 4) Staff also agreed that 13,659,799 gallons as the billing units for the water Usage Charge is appropriate for Camelot. (ICC Staff Ex. 5.0, p. 5)

2. Cost of Service (COSS) and Rate Design

Staff witness Rukosuev agreed with the Company's concern that a cost of service study ("COSS") would be too expensive for ratepayers because the cost would have to be allocated over a small number of customers resulting in an adverse impact on rates. Camelot's approximately 200 customers are all residential customers using a 5/8" Meter; therefore, a traditional COSS would provide minimal benefits. Mr. Rukosuev stated it would not be in the best interests of the customers to incur the expense of a COSS. (Staff Ex. 5.0, p. 5)

Staff determined from review of the Camelot filing that the proposed Usage Charge revenue was 83% of Camelot's total proposed revenue of \$267,000 shown on Schedule D, which left 17% for the Base Facilities Charge revenue. Staff witness Rukosuev increased its water Base Facilities Charges based on AWWA meter factors, where the allocation of costs among customer types was done through the application of meter factors.⁷ This approach relates the flow for meters larger than 5/8" to that of the volume of flow for 5/8" meter.⁸ Mr. Rukosuev agreed with Camelot's proposal to recover a greater percent of the revenue requirement from the Usage Charge so that customers are more able to control their monthly bill by adjusting their usage to match their budget. Mr. Rukosuev recommended that the Commission set water rates based

⁷ Meter Capacity factors are used for different size meters, using the standard 5/8" residential meter as a basis. These capacity factors are based on the "maximum flow criteria" of the American Water Works Association. (American Water Works Association, AWWA Manual M1, 2000, p. 202.)

⁸ See Staff Ex. 5.0 Schedule 3 - Bill Factor Computation.

upon Camelot's methodology to recover 83% of the revenue requirement as the Usage Charge and 17% of the revenue requirement as the Base Facilities Charge. (Staff Ex. 5.0, pp. 8 – 9)

Mr. Rukosuev's proposed water rate structure is transparent, feasible in its application, yields necessary revenues in a stable and predictable manner, and is simple for customers to understand so that they can take full advantage of the price signals produced by it. (Staff Ex. 5.0, pp. 10-11)

Staff and Camelot agreed upon a revenue requirement in a Stipulation. (Staff-Companies Joint Ex. No. 1 REV., at 1) If there is any difference between the revenue requirement adopted by the Commission and agreed upon in stipulation, then Mr. Rukosuev's proposed water Base Facilities Charges and Usage Charge should be adjusted by changing the value of the 'Total Operating Revenue Requirements' in Staff Exhibit 5.0, Schedule 5.2 to recover the revenue requirement adopted in the Final Order for Camelot.

With respect to Camelot's proposed sewer rates, Mr. Rukosuev accepted the proposed flat fee rate structure utilized by the Company which includes a separate sewer rate for customers using less than 1,000 gallons of water in a billing period. Mr. Rukosuev recommended that the Commission approve Camelot's proposed low usage rate for the Company to comply with the requirement of Section 8-306(h) of the Public Utilities Act ("Act") to establish a sewer rate applicable to customers who use less than 1,000 gallons of water in any billing period. (Staff Exhibit 5.0, p. 3)

In direct testimony, however, Mr. Rukosuev argued that the Company's rates do not comply with Sec. 8-306(i) of the Act which mandates that the Company "must offer

separate rates for water and sewer service to any commercial or residential customer who uses separate meters to measure each of those services.” In its rebuttal testimony, the Company stated that it does not currently have any customers who use a separate meter to measure each service. (Staff Exhibit 13.0, p. 4) Although there are no existing customers with separate meters, and no data is currently available to calculate separate rates, Staff recommends that the Commission order Camelot to revisit the Section 8-306(i) issue again in its next rate relief request. Without a rate that complies with this section of the Act, any customer who may install, or who may want to install, a separate meter will be deprived of the opportunity to have a lower sewer bill for the amount of water that does not flow through the sewer system. (*Id.* p. 5) In its surrebuttal testimony, the Company agreed to revisit the issue during the next Camelot rate case. (GNUI/CUI/LHUC Ex. 2.0, p. 2)

If there is any difference between the sewer revenue requirement adopted by the Commission and Staff and Company’s agreed upon a revenue requirement in a Stipulation (Staff-Companies Joint Ex. No. 1 REV., at 1) then Staff’s proposed sewer Base Facilities Charges should be adjusted by a uniform percentage to recover the sewer revenue requirement adopted by the Commission.

3. Bill Impacts

Based on the percent increase that is being requested by the Company to the revenue requirement, it appears that customers may experience rate shock. However, the rates that Staff witness Rukosuev proposed for this rate case are based on Staff’s proposed revenue requirement and are slightly lower than those proposed by the Company. Thus, although these average percentage increases might be considered

steep in some circumstances, the increase is necessary in order for the Company to recover its revenue requirement. It should also be recognized that the Company has not had a rate increase since 1992. (Staff Ex. 5.0, p. 25)

E. Miscellaneous Fees and Charges

1. Non Sufficient Funds Charge

The Companies proposed to increase the Non-Sufficient Funds (NSF) Check charge from \$10 (for Great Northern) or \$7 (for Camelot and Lake Holiday) to \$25. (GNUI/CUI/LHUC Ex. 1.0, p. 15, Camelot Utilities, Inc., GNUI/CUI/LHUC Ex. 1.0, p. 16, Great Northern Utilities, Inc., and GNUI/CUI/LHUC Ex. 1.0, p. 16, Lake Holiday Utilities Corporation.) In direct testimony, Staff witness Boggs stated that, based on the information provided, the \$25 NSF charge proposed by the Companies is reasonable and should be approved. (Staff Ex. 6.0REV, p. 20)

2. New Customer Charge

The Companies conducted a cost analysis to determine the average cost to add a new customer for water service and for Camelot sewer service. In supplemental, confidential responses to Staff DRs CB 1.16, CLH 1.16 and PR 1.19 the Companies state, “[t]he Company would like to recover the current average cost of labor to provide these services. It takes approximately one to two hours for an operator to add a new customer. It takes approximately 1/6th of an hour for a customer service representative to add a new customer.” In confidential Attachments CB-1.16, CLH-1.16 and PR-1.19, the Companies provide average labor costs for hourly customer service staff, hourly field staff, and mileage to support the proposed increase. Through their responses to Staff DRs listed above, the Companies demonstrated that an increase to

each of their respective New Customer Charges is appropriate and will allow the Companies to recover costs associated with such service. Therefore, Staff found the proposed increase to be reasonable and recommended that the Companies' proposals to increase their New Customer Charges to \$25 to recover costs be approved. Additionally, the Companies' proposed charge is consistent with the New Customer Charges previously approved by the Commission in other recent UI rate cases (Docket Nos. 10-0110, 10-0280 and 10-0298).

3. Reconnection Charge

The Companies proposed to increase their reconnection charges from \$20 to \$37.50. In responses to Staff DRs CB 1.07, CLH 1.07 and PR 1.10, the Companies stated that each would like to recover the current average cost of labor for one hour of employee time to provide the reconnection service. In confidential responses to Staff DRs CB 1.07, CLH 1.07 and PR 1.10, Attachments CB 1.05, CLH 1.05 and PR 1.19, the Companies provided average labor costs for hourly customer service staff, hourly field staff and mileage to support the proposed increase. Based on a review of the data provided by the Companies, Staff witness Boggs determined that the proposed increase is reasonable and recommended that the increase be approved. (Staff Ex. 6.0REV, p. 22) Additionally, the Companies' proposed charge is consistent with the Reconnection Charges previously approved by the Commission in other recent UI rate cases (Docket Nos. 09-0548, 09-0549, 10-0280 and 10-0298).

4. After Hours Call-Out Charge

The Companies proposed to establish an After Hours Call-out charge as described in the direct testimonies of Lena Georgiev. (Great Northern Ex. 1.0, p. 13;

Camelot Ex. 1.0, p. 18; and Lake Holiday Ex. 1.0, p. 18) The Companies proposed a minimum rate to be equal to two hours of current labor rate or \$106. For all time accumulated above the two hour minimum, the Companies proposed to bill customers at the rate of \$53 per hour. In response to Staff DRs CB 1.08, CLH 1.08 and PR 1.11, the Companies documented the average operator overtime costs, customer service costs to process the overtime request and roundtrip mileage to premises. Furthermore, in those same DR responses, the Companies stated that such a minimum charge would act as a deterrent in instances when a customer calls and requests service to an issue that can be otherwise handled during normal business hours.

Based on Staff witness Boggs' review of the data provided by the Companies, the proposed after hour rates reflect a reasonable amount needed to recover those costs and would prevent the cost from being passed on to the other rate payers of the system. Additionally, the Companies' proposed charge is consistent with the After Hours Call-Out Charge previously approved by the Commission in other recent UI rate cases (Docket Nos. 09-0548, 09-0549, 10-0280 and 10-0298).

5. Billing Cycles

Lake Holiday proposed to change the billing cycle for usage customers from quarterly to monthly. However, Lake Holiday proposed to keep billing Availability customers on a quarterly basis as is currently the case. Camelot proposed to change the billing cycle for all Camelot customers from bi-monthly to monthly.

In her direct testimonies, Lake Holiday and Camelot witness Georgiev. (Lake Holiday Ex. 1.0, p. 12; Camelot Ex. 1.0, p. 12) stated that a monthly billing cycle will enable these utilities to provide better service to customers. She listed the advantages

of customers being able to properly budget for water and wastewater utility expenses, expeditious detection of customer concerns and resolution of system problems, and shorter response times to unaccounted for water and water loss issues because those issues could be looked into and resolved on a monthly basis versus a quarterly or bi-monthly basis, as the primary reasons for the proposed changes. Staff agreed that the benefits of the billing cycle changes listed above will improve the efficiency of the quality of service Lake Holiday and Camelot can provide to their customers.

Because the Availability customers for Lake Holiday would have minimal monthly bills, continuing quarterly billing would be more cost effective and would allow its Availability customers the convenience of writing four checks a year instead of twelve. Consequently, Staff witness Christopher Boggs recommends the Commission approve this modification.

6. Customer Bill Form

Camelot and Lake Holiday currently have bill forms on file as tariff sheets, although they will be outdated at the conclusion of this consolidated rate case. Great Northern, however, does not have a bill form on file currently as a tariff sheet.

Section 600.160(d) (83 Ill. Adm. Code Part 600.160(d)) requires that:

In addition to the above, each utility shall file with the Commission Water Engineering Staff within 30 days from the date of this order, two copies of the bill form presently in use. Each time said form is changed, the utility shall file 2 copies of the new form with the staff and, if required, file a copy with the Commission.

Currently, water and sewer utilities are required to provide their bill forms to the Commission's Water Department only when the form changes, per 83 Ill. Adm.

Code Part 600.160(d). However, under this rule, there is no public notice and no oversight of the process pertaining to the bill form. If a customer had questions about the bill, Staff has no public or approved bill form to reference. Having the bill form as a filed tariff sheet is desirable because it would provide openness and transparency of billing information to the utility customers, to the Commission and the general public.

Staff recommended that the Commission require Great Northern to provide a copy of its bill form as a filed tariff sheet. Electric and gas utilities are already required to have their bill forms filed as a tariff sheet. It is logical that water and sewer utilities should do likewise because it would be useful to customers, Staff, and the Commission.

Staff also notes that in Docket No. 10-0194, the Commission considered this same issue for Aqua Illinois Inc. ("Aqua"). In that docket, the Commission ordered Aqua to provide a sample bill form as a filed tariff (Docket No. 10-0194, Final Order, pg. 24).

VI. TARIFF UPDATES

Lake Holiday's current Schedule of Rates for Water Service tariff sheets have various effective dates that include August 31, 1966, August 31, 1981, and August 11, 1993. Great Northern's current Schedule of Rates for Water Service tariff sheets have various effective dates that include December 5, 1975, November 14, 1998 and February 12, 2007. Camelot's current Schedule of Rates for Water Service tariff sheets have various effective dates that include April 12, 1977, April 15, 1977, October 24, 1980, September 21, 1984, July 19, 1993, and February 12, 2007.

Lake Holiday's testimony indicated that it proposed changes that are related to water rates and billing cycles. (Lake Holiday Ex. 1.0, pp.10-12) Great Northern's testimony indicated that it proposed changes that are related to water rates (Great

Northern Ex. 1.0, p. 8). Camelot's testimony indicated that it proposed changes that are related to water rates, sewer rates and billing cycles. (Camelot Ex. 1.0, pp. 9-12)

Staff recommends that all tariff sheets included in Lake Holiday's, Great Northern's and Camelot's Schedule of Rates for Water Service be filed as part of their compliance filings. Their current Schedule of Rates for Water Service tariffs (ILL. C.C. No. 1, Eighth Revised Sheet No. 1 for Lake Holiday; ILL. C.C. No. 3, Eleventh Revised Sheet No. 1 for Great Northern and ILL. C.C. No. 3, Seventh Revised Sheet No. 1 for Camelot) should be replaced with updated rates and the miscellaneous tariff charges. Staff also recommended that all filed tariff sheets for each of the Companies have a uniform and standard presentation. For example, all headers and footers should look identical, and the tariff sheets should have consistent fonts, font size, and spacing.

Staff witness Jonathan Sperry's testimony explained: "Currently the Company (Great Northern) has a construction fee that is described in their Rules tariffs for water service. This fee is not addressed on their current or proposed rate tariff sheet, and is not included in Staff's proposed Rules tariffs for water service. In Staff's opinion, rates should be separately stated on rate tariff sheets for the convenience of customers and so there is no confusion about what water rates apply." (Staff Ex. 7.0 p. 6) Based on Mr. Sperry's recommendation, Staff proposed that this \$10 charge be included within Great Northern's Schedule of Rates for Water Service as part of its compliance filing.

Camelot currently lists a \$200 connection charge per PE ("Population Equivalent") in its Rules, Regulations, and Conditions of Service tariffs. Staff recommended that this charge be included within Camelot's Schedule of Rates for Sewer Service as part of its compliance filing. This recommendation is consistent with

Staff witness Thomas Smith's recommendation that all of the Company's rate charges be placed in the Company's water rate tariffs. (Staff Ex. 8.0, p. 3)

Lake Holiday Rider 1 "General Rate Reduction for Consideration of Tax Reform Act of 1986" which is located on Ill. C.C. No.1, First Revised Supplement No. 1 has been cancelled pursuant to the Order in Docket No. 87-0601, which dismissed the proceeding investigating the ratemaking impact of the Tax Reform Act of 1986. Camelot Rider 1 "General Rate Reduction for Consideration of Tax Reform Act of 1986" which is located on Ill. C.C. No.3, First Revised Supplement No. 1 for Water Service and Camelot Rider 1 "General Rate Reduction for Consideration of Tax Reform Act of 1986" which is located on Ill. C.C. No.3, First Revised Supplement No. 1 for Sewer Service have likewise been cancelled pursuant to the Order in Docket No. 87-0556, which dismissed the proceeding investigating the ratemaking impact of the Tax Reform Act of 1986.

Staff recommends the Commission order Lake Holiday to remove Ill. C.C. No.1, First Revised Supplement No. 1 (Rider 1) for Lake Holiday water service, order Camelot to remove Ill. C.C. No.3, First Revised Supplement No. 1 (Rider 1) for water service, and order Camelot to remove Ill. C.C. No.3, First Revised Supplement No. 1 (Rider 1) for sewer Service. These respective Riders have all been cancelled pursuant to the Commission's prior Orders so including them in Lake Holiday's or Camelot's updated tariff sheets serve no purpose.

VII. DEPRECIATION

Utilities Inc. witness Lena Georgiev proposed moving from composite water and sewer depreciation rates to utilizing separate water and sewer depreciation rates for each primary account. (GNUI/CUI/LHUC Ex. 1.0, p. 14, Camelot Utilities, Inc., GNUI/CUI/LHUC Ex. 1.0, p. 10, Great Northern Utilities, Inc., and GNUI/CUI/LHUC Ex. 1.0, p. 14, Lake Holiday Utilities Corporation.) Staff witness Bill Johnson did not object to the Company's proposal to move to separate water and sewer depreciation rates by primary account; however, Staff proposed some minor adjustments to the Company's depreciation schedules. (Staff Ex. 9.0, pp. 8-23) Company witness Lubertozzi agreed with Staff's proposed depreciation adjustments. (GNUI/CUI/LHUC Ex. 3.0, p. 5)

The final proposed water and sewer depreciation rates are identified on Staff Ex. 9.0, Schedule 9.01 C-W, Schedule 9.01 C-S, Schedule 9.01 GN, and Schedule 9.01LH, page 2 of 2.

VIII. RULES, REGULATIONS, AND CONDITIONS OF SERVICE TARIFFS

Staff proposed new water and sewer Rules, Regulations, and Condition of Service Tariffs for Camelot Utilities, Inc, (Staff Ex. 8.0, pp. 2-6 and Staff Ex. 8.1 and 8.2) and new water Rules, Regulations, and Conditions of Service Tariffs for Great Northern Utilities, Inc, (Staff Ex. 7.0, pp. 3-6 and Attachment 7.01 GN) and Lake Holiday Utilities Corporation (Staff Ex. 9.0, pp. 24-27 and Attachment 9.01 LH).

Camelot Utilities, Inc., Great Northern Utilities, Inc., and Lake Holiday Utilities Corporation agreed with Staff's proposed water and sewer Rules, Regulations, and Condition of Service Tariffs (GNUI/CUI/LHUC Ex. 3.0, pp. 16-17.) Camelot agreed to adopt Staff Witness Tom Smith's proposed Rules, Regulations, and Conditions of

Service⁹ for water service and for sewer service. (GNUI/CUI/LHUC Ex. 3.0, at 16.)

The same recommendations were made by Staff Witnesses Jonathan Sperry and Bill Johnson for Great Northern and Lake Holiday, respectively. These recommendations were also accepted by the Companies. (*Id.*)

In Staff Ex. 8.0, Mr. Smith identifies a well that has been abandoned and sealed. Staff witnesses Mike Ostrander and Bill Johnson make adjustments based on this identification

XI. CONCLUSION

For the reasons set forth above, Staff respectfully requests that the Commission's Final Order in the instant proceeding reflect Staff's recommendations above and that the Company's proposed tariff changes be modified in accordance with Staff's recommendations.

Respectfully submitted,

MICHAEL J. LANNON
JESSICA L. CARDONI

Counsel for the Staff of the Illinois
Commerce Commission

August 4, 2011

⁹ ICC Staff Ex. 8.1 and 8.2.

JESSICA L. CARDONI
MICHAEL J. LANNON
Office of General Counsel
Illinois Commerce Commission
160 N. LaSalle, Ste. C-800
Chicago, IL 60601
Phone: (312) 793-3305
(312) 814-4368
Fax: (312) 793-1556
E-mail: jcardoni@icc.illinois.gov
mlannon@icc.illinois.gov